STATE STREET INVESTMENT MANAGEMENT

January 30, 2026
Commentary

Weekly Economic Perspectives

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Weekly Highlights

Big Fed news dominates the week and drives big market moves.

US: Fed Fund Rate (Upper)	US: Consumer Confidence (Jan)	EZ: Real GDP Growth (Q3, q/q)
3.75%	84.5	0.3%
Hold, 2 dissents for a cut.	Sharp, broad, declines.	Slightly better than expected.
CA: Bank of Canada Rate Decision	**CA: GDP (Nov, m/m)**	**UK: Mortgage Approval (Dec, thous)**
2.25%	0.0%	61
As widely expected	Modestly below expectations.	3rd consecutive decline.
JP: Retail Sales (Dec, m/m)	**AU: CPI (Q4, y/y)**	**AU: Trimmed-Mean CPI (Dec, m/m)**
-2.0%	3.8%	0.2%
Payback after two solid rises.	Setting up a possible hike.	Why we expect RBA to hold.

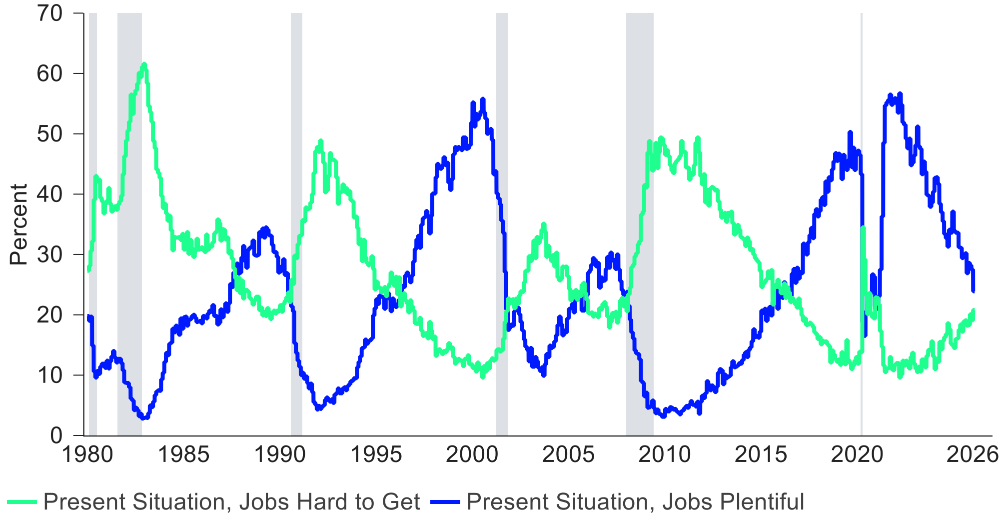
US: Dovish Hold, Hawkish Nomination?

As widely anticipated, the FOMC held the Fed Funds rate steady at 3.50-3.75% at the January meeting. Still, the decision was not without some surprises, the most important of which was that there was not one (Gov. Miran) but two (Gov. Waller) votes in favor of a 25-bp cut. In a statement explaining his dissent, Governor Waller emphasized downside labor market risks in a rather emphatic manner:

"Compared to the prior ten-year average of about 1.9 million jobs created per year, payrolls increased just under 600,000 for 2025. And, last year's data will be revised downward soon to likely show that there was virtually no growth in payroll employment in 2025. Zero. Zip. Nada. […] Let this sink in for a moment—zero job growth versus an average of almost 2 million for the 10 years prior to 2025. This does not remotely look like a healthy labor market."

We have a lot of sympathy for this viewpoint, which is why our baseline expectation is for three Fed rate cuts this year. If anything, the latest Conference Board consumer confidence data highlight these risks. The labor differential, which measure the difference between the share of respondents saying jobs are "plentiful" and those who say jobs are "hard to get" plunged 5.3 points to 3.1, the lowest level since February 2021. The two measures are now very close to crossing over each other in a manner that in the past has signaled broader economic troubles. The labor market remains the prominent issue to watch over the next few months.

Figure 1: US Consumers See Worsening Labor Market



Source: Macrobond, State Street Investment Management, Conference Board

In separate news, President Trump nominated Kevin Warsh for Federal Reserve chair, an announcement that triggered deep selloffs in dollar debasement plays like gold and silver on the basis of more hawkish policy expectations. However, the reaction may be overstated, however, given that the fragile labor market conditions support some further easing irrespective of who the new Fed Chair is.

Canada: BoC Remains on Hold

The Bank of Canada held rates at 2.25% as expected, with inflation and growth aligning with its forecasts.

Growth and inflation projections have remained largely unchanged since October, but uncertainty overshadows the economic outlook. The latest Monetary Policy Report indicates that tariffs and persistent uncertainty are expected to weigh in the economy, with growth projected at 1.1% in 2026 and 1.5% in 2027.

Inflation is expected to decline gradually as the impact of last year's GST/HST holiday diminishes. The Bank projects inflation will remain close to the 2% target, with tariff costs offset by excess supply.

The release also stated that the current policy rate is deemed appropriate but significant uncertainty makes it challenging to forecast the timing or direction of future rate adjustments.

The bank statement underscored the prevailing uncertainty and emphasized a data-driven approach in light of the upcoming USCMA review and global developments. We expect that the BoC will maintain its current policy stance, as weaker growth continues to support the ongoing easing of inflation.

Japan: Yen Moves & Fiscal Debate

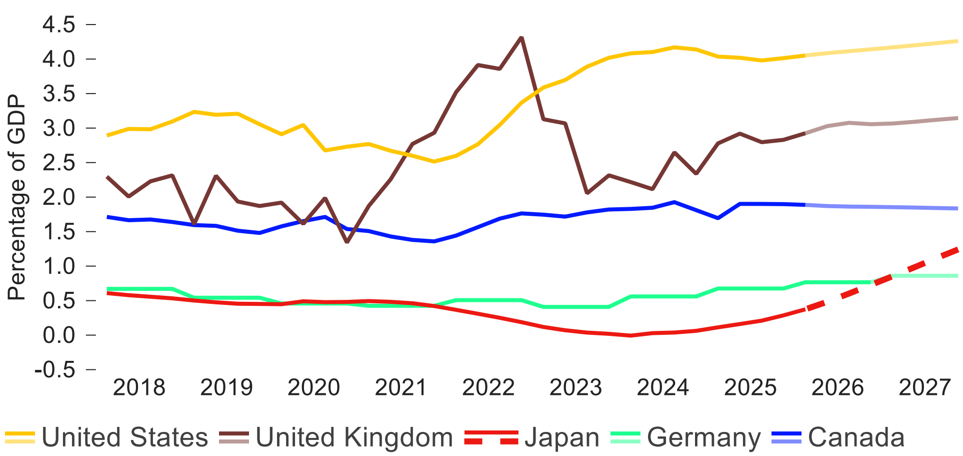
Japan's bond markets remained in focus last week as the yen experienced sharp intraday moves. The currency initially strengthened rapidly on rumors of a so-called "rate check" by the Federal Reserve Bank of New York—a step that is typically seen as a precursor to official intervention by Japanese authorities to support the yen. Such coordination has not occurred for more than a decade, leading market participants to briefly speculate about a joint intervention between Japan and the United States. However, these expectations were quickly tempered after U.S. Treasury Secretary Scott Bessent stated that the United States was "absolutely not" intervening in currency markets.

Adding to this, the U.S. Treasury Department removed its call for the Bank of Japan (BoJ) to raise interest rates in its semi-annual report released last week. Following these comments, the yen settled at around 154.73, though it remains firmly in focus, particularly given its continued weakness despite improving fundamentals and a narrowing U.S.–Japan interest-rate and yield differential.

At the same time, Japan's fiscal outlook has attracted renewed attention. With both the ruling coalition and opposition parties advocating for the elimination of the consumption tax on food, fiscal policy has emerged as a key political issue ahead of elections. Given that Japanese households spend roughly 30% of their income on food, the proposal resonates strongly with voters. However, consumption tax revenues from food are estimated at around ¥5 trillion, accounting for 15–17% of total consumption tax receipts and approximately 6–7% of overall tax revenue.

Figure 2: Japan's Rising Interest Payments Are Lower Than Peers

Net General Government Interest Payments



Source: Macrobond, State Street Investment Management, OECD (Organisation for Economic Co-operation & Development)

While 6–7% of tax revenue is arguably too large to be eliminated without consequence, it is also small enough to be offset through alternative financing measures. Investors, however, appear to be viewing these developments through the lens of Japan's already high public debt, which may help explain the outsized recent rise in Japanese government bond yields. That said, as we have discussed previously, Japan's debt is overwhelmingly domestically financed, and—critically—interest expenses, though rising, remain very low relative to other advanced economies (Figure 2).

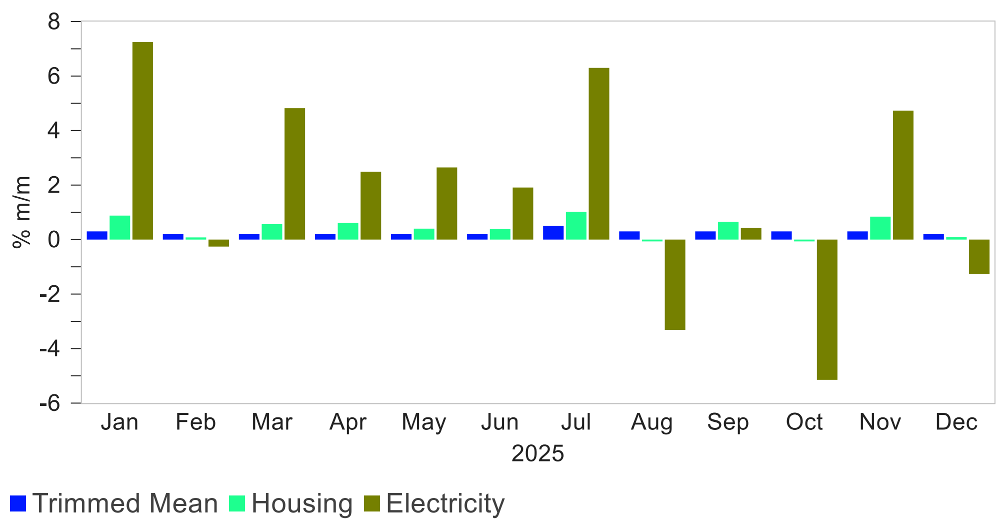
The upcoming elections are therefore significant not only for Japan but also for global markets. Any material fiscal slippage or political instability—while not our base case—could have far-reaching implications for global bond yields. Our central expectation is that Prime Minister Takaichi will consolidate her mandate, with the Liberal Democratic Party potentially increasing its seat count in the Lower House. Whether a coalition partner will be required to secure a majority remains uncertain until the results are announced. Nevertheless, there is a good chance that recent market turbulence will subside sooner than currently feared.

Eventually, the yen may remain at the weaker end of the spectrum which might revive the debate on whether the BoJ may raise rates twice this year or not (we expect one). The critical factor is that inflation will continue easing this year, as was evident in the January Tokyo CPI data released last week as the BoJ core (excluding fresh food and energy) eased for a second month to 2.4% y/y. So, the BoJ has no real urgency to hike or hike twice this year, but the yen will continue to influence markets even as dust settles after the elections.

Australia: Fully Priced

Inflation delivered another unpleasant surprise in Q4. The trimmed-mean measure rose to 3.4% y/y (0.9% q/q), coming in a tenth above our expectation. Headline inflation was also uncomfortably high at 3.8% for the quarter, though this was broadly in line with the Reserve Bank of Australia's (RBA) sequential forecast of 0.8% q/q. At the same time, Australia's inflation data is in transition from a quarterly to a monthly frequency, creating some distortions—particularly due to the uneven uptake of electricity rebates by households (Figure 3).

Figure 3: Swings In Australia's CPI Are Largely Due To Electricity



Source: Macrobond, State Street Investment Management, Australian Bureau of Statistics

The RBA has indicated it will continue to monitor quarterly outcomes, while maintaining its well-known focus on the trimmed-mean measure. In this context, the December monthly trimmed-mean is likely to carry greater weight. This measure rose by 0.2% m/m and 0.8% on a three-month annualized basis, while easing to 3.3% y/y. This suggests inflation is gradually moving closer to the target range when viewed on a monthly basis.

The composition of the data was also somewhat encouraging. Sequential price growth eased in housing (0.1%) and across several durable goods categories—household utilities (-7.1%), household appliances (-3.2%), and footwear (-0.8%)—areas previously highlighted by Governor Bullock in press conferences. That said, administered prices increased, particularly in administered services, food, and fuel. More importantly, both rents and new dwelling inflation moderated to their lowest levels since June. Among other key categories, alcohol and tobacco rose by 0.5%, followed by health (0.4%) and education (0.4%), all of which we have repeatedly flagged as areas of concern.

Markets are currently pricing a 75% probability that the RBA will raise the cash rate by 25 basis points next week. Given the inflation surprises—and more importantly, the recent surprise in the labor market—this outcome is plausible. However, we continue to argue that inflation pressures should ease over the medium term and that recent surprises do not necessarily point to binding capacity constraints.

We expect the RBA to show some patience to let more data come in and hence, we expect the Bank to hold rates next week, while delivering hawkish guidance. Either way, the Bank's tolerance for adverse macroeconomic surprises appears to be wearing thin, and further upside risks are unlikely to be overlooked.

Week in Review

A summary of macro data releases from the past week.

Country	Release (Date, format)	Consensus	Actual	Last	Comments
Monday, Jan 26					
US	Durable Goods Orders (Nov, m/m)	4.0%	5.3%	-2.1%	Up 10.5% y/y.
GE	IFO Business Climate (Jan)	88.2	87.6	87.6	Moving sideways.
Tuesday, Jan 27					
US	FHFA House Price Index (Nov, m/m)	0.3%	0.6%	0.4%	Up 1.9% y/y.
US	Conf. Board Consumer Confidence (Jan)	91.0	84.5	94.2 (↑)	Sharp pullback across categories.
AU	NAB Business Confidence (Dec)	--	3	2 (↑)	Modest.
Wednesday, Jan 28					
US	FOMC Rate Decision (Upper Bound)	3.75%	3.75%	3.75%	Two dissents in favor of a cut.
CA	Bank of Canada Rate Decision	2.25%	2.25%	2.25%	In line with our expectations.
GE	GfK Consumer Confidence (Feb)	-25.5	-24.1	-26.9	Moving sideways.
IT	Consumer Confidence Index (Jan)	96.9	96.8	96.6	Moving sideways.
AU	CPI (Dec, y/y)	3.6%	3.8%	3.4%	Headline surprise, sound underlying details.
Thursday, Jan 29					
US	Initial Jobless Claims (Jan 24, thous)	205	209	210 (↑)	Modest.
US	Continuing Claims (Jan 17, thous)	1,850	1,827	1,865 (↑)	Look fine.
JN	Jobless Rate (Dec)	2.6%	2.6%	2.6%	Great.
JN	Retail Sales (Dec, m/m)	-0.5%	-2.0%	0.6%	Payback after two solid rises.
JN	Industrial Production (Dec, m/m, prelim)	-0.4%	-0.1%	-2.7%	Payback.
Friday, Jan 30					
US	PPI Final Demand (Dec, y/y)	2.8%	3.0%	3.0%	Fine.
UK	Mortgage Approvals (Dec, thous)	64.9	61.0	64.1	Weak.
GE	Unemployment Claims Rate (Jan, sa)	6.3%	6.3%	6.3%	Has flatlined here for almost a year.
GE	GDP (Q4, q/q, prelim)	0.2%	0.3%	0.0%	Welcome modest improvement.
GE	CPI (Jan, y/y, prelim)	1.9%	2.1%	1.8%	Has it bottomed?
FR	GDP (Q4, q/q, prelim)	0.2%	0.2%	0.5%	Modest.
IT	GDP (Q4, q/q, prelim)	0.2%	0.3%	0.2% (↑)	Modest.
IT	Unemployment Rate (Dec)	5.8%	5.6%	5.6% (↓)	Making new lows.
JN	Housing Starts (Dec, y/y)	-4.6%	-1.3%	-8.5%	Soft.
AU	Private Sector Credit (Dec, m/m)	0.6%	0.8%	0.6%	Solid!

Source: data, Bloomberg®; for commentary, SSGA Economics.

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